Bundesverband der Deutschen Industrie e.V.

MEDEF

Strengthening Competitiveness and Creating more Jobs in Europe

A call from BDI and MEDEF to the European Council - 20-21 March 2014

Our Priorities for the Future

Europe is still the largest economic player in the world: it accounts for 7% of the world's population and produces 25% of world GDP. However, its status as main economic power is at stake due to growing concerns about and actual handicaps to its competitiveness. Economic outlooks foresee that 90% of economic growth will be generated outside Europe by 2015 and growth in Europe may be further hampered by the ageing of its population. Moreover many European countries suffer from excessive public spending, with ratios of public spending to GDP above 50% in many instances, thereby putting a heavy burden on businesses and entrepreneurs.

We believe that Europe's competitiveness depends on a well-functioning internal and labour market and its capability to adapt to global economic changes. As industry and technology are the hub for value creation chains, we remind our governments that their efficiency is crucial to ensure prosperity and enable Europe to safeguard its living standards and social market economy model. The competitiveness of industry and its related services is the necessary prerequisite to ensure durable growth and full employment in Europe.

In this regard, the current situation is alarming: the EU's share of world manufacturing value-added dropped from 25.7% to 20.8% from 2000 to 2012. At the same time, taxes and shortcomings in EU and national energy policies have caused a 21% increase on energy bills in 4 years, further undermining European competitiveness in comparison with competing economic zones while threatening sustainable development objectives such as CO_2 emissions and long-term security of supply. Also, the number of patents registered by European companies is dropping (in 2011, there were 240,000 patents registered in the USA, 172,000 in China and only 62,000 in Europe).

We insist that the next French-German Summit on February 19th address the competeveness issue as a priority for both countries as well as for Europe. Our countries have a special responsibility to shape Europe's future.

Improving competitiveness in Europe requires the definition of an ambitious competitiveness strategy to be formulated by the European Council taking place on March 20th.

Therefore, BDI and MEDEF ask the French and German Governments for strong and urgent actions, together with their European colleagues, in order to provide Europe with a clear strategy, and an unambiguous decision to put the competitiveness of European businesses at the core of each and every European policy.

It also requires, as a pre-requisite, a number of fundamental changes in European governance to ensure a more effective and well managed Europe in the world.

This means:

- a leap forward in Euro area governance to promote competitive framework conditions in Member States;
- revamping EU governance to refocus all EU policies on competitiveness.

We call on the German and French governments to strive for these crucial reforms within the European Council. The beginning of the next five-year legislative term is a unique opportunity to put Europe on a solid and steady path to competitiveness.

A leap forward in Euro area governance to ensure a well-functioning internal market and a steady and business-friendly environment.

The Eurozone is the heart of the European project, but it lacks an efficient management. Strengthening the Euro area governance is a prerequisite to improve the implementation of structural reforms in all Member States. The joint proposal of the German and French governments on Euro area governance from May 2013 was a promising start. Now it needs full implementation.

First, the European Semester should be strengthened by **binding contractual agreements on structural reforms and market liberalisation**, whilst recognising the autonomy of the social partners in their field of competence.

Also, as we believe that more economic policy integration will result into increased competitiveness and more jobs, we call on for the creation of a permanent fiscal and budgetary executive body

In parallel, a **greater involvement of national parliaments** is required to strengthen democratic control and legitimacy of the renewed Eurozone architecture.

We need more economic growth in Europe, and like the people of Europe, its industry needs a Europe which both grows faster and creates more jobs: we need a Europe that is properly structured to do so. That is why we ask for a new Treaty for the Eurozone and the EU that would implement these ambitious measures and create a new order of competencies. Finally, we believe that those countries which want to go ahead should go ahead in an organised fashion, and therefore call on for the French and German governments to take, with their partners, this ambitious initiative.

An Industrial Compact for the EU

BDI and MEDEF call for an industrial and technological compact to integrate European companies in international value creation chains. This requires a fundamental change in EU governance which ensures the mainstreaming of industrial competitiveness throughout all policy areas and decision-making levels.

- The **European Council** should give the strategic directions and set out the priorities for EU industrial and technological policy.
- The **Competitiveness Council** should be scaled up to become the main EU body to coordinate Europe's competitiveness agenda.
- The **European Commission** has to take into account, in any new policy initiatives and legislative proposals, the impact on industry and technology. Transparent competitiveness-proofing has to become an integral part of ex-ante impact assessment. European industry must be given the opportunity to participate fully with its international knowledge and experience.

This initiative should be accompanied by a comprehensive competitiveness agenda, focused

on strengthening price competitiveness by reducing the cost of labour, the cost of energy, the cost of finance and the costs resulting from administrative requirements, as well as on strengthening non-price competitiveness by improving the environment of enterprises.

To that end we propose the following key policy recommendations:

Recommendation n°1: reduce or at least contain the cost of labour in order to secure appropriate competitiveness conditions

Labour cost is not sufficiently competitive in many European countries and in many sectors, especially industrial ones.

The EU has to keep firmly pushing Member States that suffer from non-competitive labour costs to reform the financing mechanisms of their social security systems when it impacts negatively on salaries, and to manage wage developments.

Also, we call on French and German governments to review and reduce all existing taxes based on production factors, revenue or turnover.

EU Heads of State and Government have to make budgetary consolidation together with the reduction of taxes and social contribution their number one priority: this should be achieved by sharp reductions in public expenditures, except those dedicated to R&D and training.

Recommendation n°2: a common energy transition policy needs to be elaborated that will allow energy suppliers and industry to contribute to a competitive and sustainable industrial value chain

The State driven 21% increase on energy bills within four years undermines European competitiveness vs. competing economic regions further while threatening sustainable development objectives such as GHG emissions reduction and long-term security of supply. This jeopardises the stabilising unity of industry and energy in the European economy.

We must:

Limit soaring energy bills. Member States should ensure a better coordination of their national energy strategies. Renewable energy support schemes should be gradually integrated into regular markets for mature wind and solar technologies in order to ensure a cost-effective energy transition. R&D policies and funding should support the least mature technologies. Energy costs should not be burdened by taxes intended to finance other policies. The high cost of non-mature technologies cannot be borne by European business. This has to be reflected in the EU Energy and Environment Aid Guidelines, which must allow for protection of energy-intensive industries. We welcome the European Guidelines published on January 22nd, 2014, that illustrate Europe determination to explore and exploit, in a sustainable manner, potentially highly advantageous unconventional energy resources such as shale gas.

Guarantee a reliable and uninterrupted electricity and gas supply. The completion of the internal energy market with implementation of the third energy package and the development of related infrastructures should be an absolute priority. Existing power capacities should be used to contribute to the security of supply instead of building new subsidised capacities, and any capacity remuneration mechanisms put in place should be non-discriminatory.

Reinforce Europe's climate ambition while providing fair conditions for EU business competing globally. The EU should focus on a central GHG emissions reduction target. On this specific point, the energy and climate 2030 package issued by the European Commission on January 22nd goes in the right direction but should be reinforced on competitiveness with a concomitant growth target. Furthermore, the very high level of ambition (40% reduction) must be conditional on an international agreement. The European Emissions Trading System is the central long-term instrument. Therefore, a coherent long-term EU energy and climate policy strategy (2030 and beyond) that encompasses inter alia a well thought-out structural reform of the EU ETS is crucial. Energy efficiency and energy conservation should be encouraged. The 2015 Paris climate summit should be used as an opportunity to create a level playing field for EU companies. Should an international agreement not be reached, additional measures should be taken at EU level to ensure European industry competitiveness and avoid carbon and job leakage towards competing economic regions.

Recommendation n°3: simplify the European regulatory environment

Enterprises need a **simplified, more stable and more competitive** European regulatory environment. Europe should at least apply the "one in, one out" principle and make compulsory for any new legislative proposal ex-ante impact assessments and competitiveness tests. Finally, the EU should not impose constraints on European enterprises that go beyond what their international counterparts are required to do in other regions of the world.

Recommendation n°4: facilitate access to finance for enterprises

The swift implementation of the Banking Union is a determining factor to enhance confidence which would make Europe more attractive. We request decisions being taken to reduce financial market fragmentation within the EU and thus to improve European companies competitiveness through better conditions of access to banking credits. It will be also fundamental to facilitate the development of alternative sources of funding.

Taxation on investment in capital and on financial savings should create incentives to invest in businesses and help access to finance for enterprises. Also, any taxation of financial transactions should be absolutely excluded as it would pose a serious threat to the development of financial services and to the financing of enterprises in Europe.

More generally, in order to avoid European enterprises suffering from competitive disadvantages, it is essential that the cumulative macroeconomic effects of global financial regulations – Basel III and Solvency II – are assessed.

Last but not least, we call on the Commission to exercise the greatest caution in the drafting of any proposed regulation regarding separation of banking activities, and to ensure the continuous success of the European banking model, based on the universal scope of their activities, as it constitutes an efficient model that allows good access to finance for European enterprises.

Recommendation n°5: make the labour market more flexible and extend working lives

Bringing more flexibility into the labour market, and extending working lives in order to make it match life expectancy more closely, are the preconditions to maintain the supply of labour and ensure the financial sustainability of social security systems without placing more burdens on enterprises.

A less rigid labour market is an essential answer to unemployment, especially youth unemployment. The EU should also promote flexible education systems and encourage bridges between education institutions and enterprises to ensure that educational programmes match labour market needs. Apprenticeships are a particularly efficient and adapted tool.

Increasing the number of working hours is another answer to improve competitiveness, growth and jobs in Europe. Today, the average per capita annual working time is 609 hours in France, 708 hours in Germany and 684 hours in the Eurozone). In comparison, the figures are 806 hours in the United States and 878 hours in Japan.

Recommendation n°6: complete the internal market

Completion of the internal market remains the priority to fully exploit growth and job opportunities. It requires an injection of competition into captive markets and the liberalisation of public services (telecommunications, energy, public transportation and other utilities).

Enterprises also expect the EU's competition policy to address anti-competitive behaviours with determination (abuse of dominant position, trust) whenever those behaviours hinder innovation and deprive consumers of their benefits.

Recommendation n°7: boost research and innovation in Europe

Europe dangerously lags behind the USA and South Korea regarding research and innovation. This requires the EU to stimulate investments and spending on R&D. A favourable framework for the financing of start-ups should also be created by supporting European risk capital and by facilitating stock market listing for young innovative European enterprises.

At the same time, industrial leadership in all Key Enabling Technologies (KETs) should be reinforced. With regard to the digital revolution that is relevant not only for Advanced Manufacturing but also for further KETs, the electronic, robotic and "smart grids" sectors, and industries exploiting technologies such as cloud computing, embedded software, Big Data, IT security, etc., should be promoted.

It is essential to develop infrastructures, if necessary by complementing privately financed projects with EU and Member-State funds. The Connecting Europe Facility should therefore be directed towards financing the new generation of networks. Moreover, it is necessary to develop digital competences in order to address the needs of businesses, enhance the security of systems, secure a level playing field between actors of the digital sector, implement the VAT reform on schedule in 2015, implement the "digital single market" and regulate it in a harmonised way that would facilitate data circulation, invoicing and electronic payments.

Recommendation n°8: Work towards open global markets for trade and investment

Improving market access and dismantling barriers to trade and investment is imperative to strengthen the EU economy and to face up to global competition.

BDI and MEDEF propose the following priorities:

- Curb protectionism and further develop the multilateral trade system: the G20 self-commitment against trade restrictions should be implemented more effectively to combat trade protectionism. The Bali package on trade facilitation should be implemented quickly and effectively. In addition, the WTO should continue to address other unresolved issues of the Doha round, such as the liberalisation of services and market access for industrial goods. Preferential trade agreements should be consistent with the WTO framework. New investment rules, clear provisions for competition, greater transparency and access to public procurement markets as well as trade facilitation rules should be developed at the multilateral level (so-called Singapore/WTO+ issues). In addition, more plurilateral sector agreements can help stimulate the multilateral process. The WTO's role should also be strengthened through institutional reforms.

- Establish a coherent European strategy for bilateral free-trade agreements: In addition to the clear priority for progress in negotiations on multilateral agreements, the European Union should apply a coherent strategy when negotiating bilateral free-trade agreements. These should be geared to the EU's long-term economic and political interests. Successful agreements should dismantle both tariff and non-tariff barriers, and they should address WTO+ issues. The EU should first and foremost successfully conclude free-trade agreements with important partners and growth regions. These include, inter alia, agreements with the USA, with India, ASEAN, Mercosur and with the Andean Community.

- Drive negotiations for a transatlantic trade and investment agreement (TTIP) as a way to create growth and jobs: A successful TTIP should provide for a comprehensive mutual opening of markets. Apart from eliminating tariffs, it should dismantle trade barriers caused by different rules and standards. Public procurement markets should be opened at all levels which means, for example, that buy-national provision should not apply to EU companies. It should make significant progress on the development of global rules. It should include the financial services in the negotiations and harmonize coordinate disparate regulations, for example, via the transcription and effective application of international rules. In addition, TTIP should harmonise customs procedures.